

Message Text

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SUBJECT: LUZON STEVEDORING PURCHASE

1. DURING PAST SIX MONTHS OR MORE, GOP HAS BEEN CONDUCTING AN INTENSE AND NOT TOO SUBTLE CAMPAIGN TO ACQUIRE ALL HOLDINGS OF THE DIVERSIFIED MARITIME AND TRANSPORT FIRM, LUZON STEVEDORING COPORATION (LUSTEVECO). OSTENSIBLE REASON FOR THE PURCHASE, AS GIVEN BY DEFENSE SECRETARY PONCE ENRILE WHO HAS BEEN LEADING NEGOTIATIONS, IS THAT LUSTEVECO HAS GAINED CONTROL OF SEVERAL AREAS (INTER-ISLAND OIL SHIPPING, STEVEDORING, TUG AND BARGE SERVICES, INLAND TRUCK TRANSPORTATION, BULK SUGAR HANDLING, ETC.) WHICH ARE VESTED WITH SIGNIFICANT PUBLIC INTEREST. LUSTEVECO VIEW IS THAT PURCHASE IS A QUOTE RIPOFF UNQUOTE IN PART MOTIVATED BY MERE GREED AND IN PART REFLECTIVE OF CONTINUING POLITICAL JOCKEYING BETWEEN MARCOS AND FORMER SENATOR PUYAT. WIDESPREAD GOSSIP IS THAT THIS IS ONLY THE NEXT IN A WIDENING NET OF PALACE TAKE-OVERS. ACTUAL MOTIVATIONS CANNOT BE FULLY GAUGED UNTIL AFTER A FINAL SIGNING-OVER CEREMONY, NOW SAID TO BE SCHEDULED FOR APR 4, AND SOME BETTER READINGS CAN BE TAKEN ON WHERE THE MANY PARTS OF LUSTEVECO COME TO REST.

2. LUSTEVECO IS A FIRM OF TREMENDOUS GROWTH HISTORY AND POTENTIAL, ALREADY HAVING YIELDED SIZEABLE FORTUNES FOR A NUMBER SUCH AS RETIRED ADMIRAL QUOTE CHICK UNQUOTE PARSONS
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AND FAR EAST BANK PRESIDENT JOBO FERNANDES. PRESENT OWNER-

SHIP STRUCTURE WAS ESTABLISHED IN 1972 WITH A PUYAT BUY-IN. FIRM SINCE HAS BEEN OWNED ABOUT 35 PERCENT BY DON MARSHALL, AN AMERICAN; ABOUT 33 PERCENT BY SENATOR PUYAT AND HIS FAMILY; AND THE REMAINDER BY EMPLOYEES OF THE FIRM. PROFITS IN 1974 WERE P52 MILLION OFF AN INVESTMENT OF P 140 MILLION. WITH THE INCREASE IN ASSET VALUES SINCE ENERGY CRISES AND WITH THE REINVESTMENT OF EARNINGS, SHARES PURCHASED BY THE PUYATS IN 1972 AT P 78 ARE NOW BOOK VALUED AT ROUGHLY P 180.

3. AFTER A LONG AND SPORADIC HAGGLE, MARSHALL HAS TOLD EMBOFF THAT GOP IS NOW PREPARED TO SETTLE ON APR 4 AT P 102 SHARE, PAYMENT TO BE 100 PERCENT CASH IN FOREIGN CURRENCY, ON CONDITION THAT DON MARSHALL AND OTHER KEY MEMBERS OF PRESENT MANAGEMENT TEAM SIGN ON AS CONSULTANTS FOR THE NEXT TWO YEARS. AT THE PRICE CITED, GOP EFFECTIVELY HAS PRE-EMPTED ALL WINDFALL FROM ASSET REVALUATION AND A MITE OF REINVESTED EARNINGS. CASH PAYMENT IS REPORTEDLY TO BE MADE BY PNB OUT OF QUOTE SUGAR UNQUOTE EARNINGS. THE NEW OWNERS ARE CURRENTLY TABBED AS THE PHILIPPINE NATIONAL OIL COMPANY (PNOC) AND THE LAND BANK.

4. COMMENT: (A) THE APR 4 SIGNING WILL END AN ALMOST THREE YEAR EFFORT TO BUY OUT LUSTEVECO. ACCORDING TO A VERY RELIABLE SOURCE THE EFFORT FIRST WAS PROMOTED BY PRESIDENT MARCOS HIMSELF MAKING AN OFFER TO MARSHALL. BOTH MARSHALL AND THE PUYATS HAVE BEEN TOUGH BARGAINERS, BUT GOP HAS HAD VARIOUS TOOLS TO BRING THEM AROUND. THESE HAVE INCLUDED OIL INDUSTRY COMMISSION DENIAL OF RATE INCREASES TO REFLECT NEW ENERGY COSTS; A PRE-EMPTORY TAKEOVER OF STEVEDORING ON MANILA DOCKS BY ASSIGNMENT OF PERMITS TO A REPUTED FRONT FOR MRS. MARCOS, THREATS TO OTHER ASSETS OF THE PUYAT FAMILY, AND, OF COURSE, THE NOT INCONSIDERABLE AND CONSTANT PRESSURE OF PONCE ENRILE AND PNOC CHAIRMAN VELASCO TO GET LUSTEVECO TO COME TO TERMS. (B) PRESENT OWNERS ARE OBVIOUSLY NOT HAPPY WITH THE SEL-LING PRICE, BUT IT DOES NOT REPRESENT A RIPOFF EXCEPT AS MEASURED AGAINST AN IDEAL. AT VARIOUS TIMES, LUSTEVECO COUNTER-OFFERED AS LOW AS P 108, AND AT THAT PRICE WE UNDER- STAND WOULD HAVE SHOWN A SMALL PROFIT. P102, AS WE HAVE DONE THE ARITHMETIC, REPRESENTS THE ROUGH COST OF SHARES ACQUIRED IN 1972, PLUS THE AMORTIZATION CHARGES ON LOANS
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FLOATED TO ACQUIRE THESE SHARES -- IN SHORT A BARE BONES COST FIGURE FOR THE 1972 SHARES HELD BY PUYAT, BUT A PROFITABLE FIGURE FOR SHARES ACQUIRED EARLIER BY MARSHALL AND OTHER LUSTEVECO SHAREHOLDERS.

(C) WHAT WILL BECOME OF LUSTEVECO IS SUBJECT OF A MIGHTLY SPATE OF RUMORS, MOST PERSISTENT OF WHICH PROJECT A PARCELLING OUT AMONG SEVERAL GROUPS. STEVEDORING IS SAID TO BE BOUND TO THE ROMUALDEZ FAMILY ALONG WITH TRANSCOM,

THE INLAND TRUCKING FIRM WHICH MRS. MARCOS REPUTEDLY WISHES TO TIE IN WITH THE FORMER AQUINO BUS LINE, PANTRANCO. SALVAGE AND RELATED EQUIPMENT ARE SAID TO BE BOUND TO A FIRM TO BE SET UP OUTSIDE GOVERNMENT BY PNOC CHAIRMAN VELASCO, DND SEC PONCE ENRILE AND OTHERS. (TWO-THIRD OF 1974 PROFITS CAME FROM SALVAGE OPERATIONS). INTER-ISLAND OIL TRANSPORT AND STORAGE FACILITIES ARE EXPECTED TO REMAIN WITH PNOC, BUT THE BULK SUGAR TERMINAL IN NEGROS IS SLATED FOR THE PHILIPPINE EXCHANGE AND/OR AMB ROBERTO BENEDICTO, CLOSE CONFIDANT OF THE PRESIDENT. TUGS AND BARGES ARE SAID TO BE HEADED FOR A NEW GOP ENTITY WHICH WILL SET OUT TO MONOPOLIZE INTER-ISLAND SHIPPING AND RELATED SERVICES.

(D) WHERE THIS WILL ALL COME OUT IS A BIT EARLY TO SAY. ON THE ONE HAND ARE THE FACTS OF GOP ACQUISITION FOR A ROCK BOTTOM BUT NOT UNREALISTIC PRICE, OF A RANGE OF ACTIVITIES SOME OF WHICH GENUINELY ARE VESTED WITH THE PUBLIC INTEREST. ON THE OTHER HAND IS VELASCO'S SOMETIMES CRUDE AND SELDOM DISCREET OBSERVATION THAT QUOTE WE CAN HAVE IT ALL UNQUOTE. QUOTE WE UNQUOTE REMAINS UNSPECIFIED.

(E) MOST IMMEDIATELY TROUBLESOME ABOUT THE LUSTEVECO DEAL IS THE APPARENT CHILL IT IS SENDINZ THROUGH THE FILIPINO BUSINESS COMMUNITY. ONE SOURCE WHO SELDOM SPEAKS OUT BUT IS SELDOM WRONG WHEN HE DOES STATES THAT MANY OF HIS COLLEAGUES ARE HOLDING BACK ON NEW INVESTMENTS, BECAUSE THEY DO NOT WANT TO CREATE NEW BUSINESSES QUOTE JUST TO BE TAKEN OVER, EVEN AT A REASONABLE PRICE. UNQUOTE ANOTHER HIGHLY RESPECTED SOURCE STATES HE IS SEEKING FOREIGN PARTNERS FOR EXISTING BUSINESSES QUOTE BECAUSE THEY OFFER AN ADDITIONAL MARGIN OF PROTECTION AGAINST TAKEOVER. UNQUOTE A SOBERLY EXPRESSED VIEW BY SUCH SOURCES IS THAT THE POTENTIAL UNDOING OF THE NEW SOCIETY LIES MORE LIKELY IN SUCH UNRESTRAINED PREDATORY URGES THAN IN OTHER MORE COMMONLY CITED WEAKNESSES OF THE PRESENT LEADERSHIP.

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(F) SO FAR, HOWEVER, WITH A FEW NOTABLE EXCEPTIONS THE VICTIMS OF SUCH RAIDING HAVE NEITHER BEEN GREATLY CURTAILED IN OTHER BUSINESS ACTIVITIES NOR HAVE THEY EXHIBITED ANY STRONG WILL TO FIGHT BACK. IN THE LUSTEVECO CASE, MARSHALL PERSONALLY HAS SEEN THE HANDWRITING ON THE WALL FOR SOME YEARS. HE HAS SUBSTANTIAL AND DIVERSIFIED HOLDINGS WHICH HE HAS TRANSFERRED TO GUAM, SINGAPORE, HONG KONG AND MOST RECENTLY IRELAND. WHILE THREATENED, INTER ALIA WITH LARGE TAX BILLS, THE PUYATS REMAIN VERY MUCH ALIVE IN BANKING, GRAIN MILLING, STEEL, AND REAL ESTATE. IT IS EXPECTED THAT MANY SENIOR EXECUTIVES OF LUSTEVECO WILL GO OFFSHORE WITH MARSHALL, AND THEY PROBABLY WILL INVEST THEIR RETURNS FROM THE SALE IN HIS OFFSHORE VENTURES. NOT THE LEAST OF THE LOSSES TO THE COUNTRY FROM THIS TRANSACTION, THEREFORE, WILL HAVE BEEN A FIRST-CLASS MANAGEMENT TEAM.

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